

Industry Restructuring Update

Jan. 12, 2005

Grid West has passed its first milestone

In December 2004, the RTO West board of directors adopted [bylaws](#) for [Grid West](#), a proposed new Northwest transmission operator and planning organization. Adopting Grid West bylaws is the first of four steps in the development process for the proposed Northwest transmission organization. Failure to complete any of the steps will end the entire process.

The former RTO West board, comprised of representatives of nine major owners of Northwest transmission lines, including BPA, will remain as an interim Grid West board unless and until an independent Grid West board is elected by the membership. Grid West is now actively seeking new members, including major transmitting utilities, transmission dependent utilities, generators, marketers, consumers, state and provincial energy authorities, tribes and public interest groups.

"We believe there is a substantial potential for benefits to be gained by establishing a common transmission operator and planner for the Northwest grid," BPA Administrator Steve Wright said in a [letter](#) to customers and others. "The next step of Grid West development will give us an opportunity to test and evaluate whether these benefits outweigh Grid West costs."

If Grid West's design proves workable and beneficial, BPA could eventually contract with Grid West for transmission operation and planning services. However, many issues must be resolved before BPA could decide that Grid West really will bring net benefits to the region. BPA will conduct environmental review and complete a record of decision before deciding to contract with Grid West. The soonest that decision might be made is 2007.

RRG to outline next steps Jan. 14

The Regional Representatives Group, the public forum that has been working on Grid West issues, meets Jan. 14 in Portland to outline what it will try to achieve this year. "We expect the RRG and Grid West will work to complete a preliminary design for Grid West by mid-2005 and then decide whether to seat a five-member independent Grid West developmental board later in the year," said BPA's Allen Burns. Seating a developmental board is decision point #2 in the four-step process for Grid West development. This board would then develop Grid West to the point where it could offer and then sign transmission agreements with utilities, a process expected to take another two years.

Design, evaluation now through spring

BPA has committed to complete a preliminary cost-benefit analysis of Grid West design before it decides whether to proceed with decision point #2. To analyze costs and benefits of an organization, you have to have the organization's design.

The Grid West platform developed by the Regional Representatives Group in 2003 provides the first level of Grid West design. Much more design detail is needed to complete a meaningful cost-benefit analysis. Therefore, the several work groups that have been tackling Grid West design issues for more than a year are now kicking into high gear. These include:

Transmission Services: The Transmission Services Liaison Group, which includes staff from BPA and other utilities, expects to produce 29 separate white papers on specific issues, ranging from regional planning to dispute resolution. *BPA lead: Eric King*

Consolidated Control Area Design: BPA, PacifiCorp and Idaho Power Company are developing plans on how they might combine their respective transmission control areas. *BPA lead: Tim Smith*

Pricing: The Pricing Group of the RRG is considering how Grid West would price its services and mitigate any cost-shifts. *BPA lead: Joe Rogers*

Legal: The Legal Group of the RRG is monitoring and checking material as it's developed to assure each part meets all legal requirements by itself and in concert with others. *BPA lead: Steve Larson*

Risk-Reward: Once all the design details are fleshed out, BPA can – and will – do a preliminary analysis of their combined costs, benefits, risks and potential rewards. Because the timeline is tight, as much analysis as possible will take place as design proceeds, but much of the analysis will have to be done once the major design elements are known. *BPA lead: Janelle Schmidt*

“There are people throughout BPA with expertise in these areas,” Syd Berwager, Industry Restructuring project manager, noted. “If you have ideas you’d like to see included or concerns you want to assure are addressed, now is a good time to get involved.”

More decision points ahead

The [decision points](#) needed to launch Grid West are:

1. Adopt Grid West bylaws (done)
2. Decide to seat a developmental board (summer 2005)
3. Grid West offers transmission agreements to utilities (summer 2006)
4. BPA and two other major transmission utilities sign transmission agreements (summer 2007)

Future decisions on whether to stay involved with Grid West will be driven by what it believes will be in the collective best interest of the regional customers and stakeholders who depend on the Northwest transmission grid. BPA would complete an environmental review and record of decision before decision point #4.

Additional focus on TIG

As work continues to flesh out the details of Grid West design, an alternative approach to unified Northwest transmission operation and planning is being proposed by the Transmission Issues Group, an ad hoc collection of Northwest utilities. The TIG advocates using existing institutions rather than creating a new one.

“BPA will remain involved in TIG and Northwest Transmission Assessment Committee activities because a number of these ideas have had merit,” said Allen Burns. However, he

suggested, TIG proposals so far do not go far enough to solve the region's transmission problems. "For example, we need effective one-utility, system-wide planning with an adequate backstop, so that important grid additions are implemented and costs assigned to those transmission owners that benefit. We need an effective decision-making process to identify beneficiaries of transmission projects and assure needed transmission is built."

TIG's challenge is to determine how an alternative independent entity would be structured to capture these benefits while avoiding or minimizing FERC jurisdiction," Burns said. In his close-out letter to the region on efforts in the first phase of Grid West development, Steve Wright proposed that if TIG would take the lead to address these issues and develop its proposal to maturity, BPA would be willing to work actively with it to further develop a viable alternative that the region could consider along with the Grid West proposal.

Ninth Circuit Rejects Snohomish claim

The Ninth Circuit Court of Appeals has rejected a Snohomish PUD petition that BPA cease its Grid West activities until it completes a National Environmental Policy Act assessment and publishes a record of decision. "Petitioner has not demonstrated that this case warrants the intervention of this court," the Ninth Circuit said.

In December, Snohomish had asked the court to enjoin BPA from voting on the bylaws and to issue a "writ of mandamus" prohibiting further activity pending NEPA review and a ROD. Snohomish argued that voting to establish bylaws would inappropriately transfer BPA's duties to Grid West. BPA pointed out that establishing bylaws does not transfer any BPA duty, responsibility or right to anyone. Court denied Snohomish's request for an injunction in December and has now rejected the rest of the complaint.

BPA offers 20-year transfer service contracts

If enough customers agree, existing BPA preference customers that receive BPA power via other utilities' lines will keep getting about the same kind of service for the next 20 years that they get today. That's the outcome of a yearlong effort to resolve questions about [transfer service agreements](#), also known as GTAs.

BPA has offered about 80 transfer service customers a new 20-year contract outlining rights and responsibilities through Sept. 30, 2024. Customers have until March 31, 2005, to agree. If enough do, BPA will sign on, and an issue of great interest to those involved will be resolved.

Transfer services deliver firm federal power to BPA preference customers over another utility's facilities. Historically, transfer service costs have been assigned to power rates generally. They have never been assigned to individual customers or to transfer service customers as a group. Transfer service customers have sought assurance that this will remain the case. The contract BPA is offering achieves this while also protecting other customers' interests.

Council takes on Generation Adequacy Standards

The Northwest Power and Conservation Council completed its fifth Northwest Power Plan in December, and included in it a commitment to convene a forum on regional generation adequacy standards. BPA advocated this facilitation role for the Council to help assure that the key

Northwest entities (e.g. PUCs, IOUs, public power utilities, BPA, NWPP) involved in resource decisions will come to agreement on a regional approach that collectively will provide an adequate, reliable, environmentally sound power supply, as called for in the Northwest Power Act of 1980.

Transmission Adequacy Standards effort expands

Public comments on a BPA proposal to develop transmission adequacy standards are broadening BPA's effort. "Our public comment period brought us some excellent suggestions," said Brian Silverstein, acting vice president for Transmission Planning. "There was general consensus that the effort should develop standards for the entire Northwest rather than just the BPA system.

After all, it is one interconnected system." The new proposal

(<<http://www.transmission.bpa.gov/newsev/view.cfm?ID=308&type=notice>>)

says draft standards and measurements should be developed by September 2005.

BPA launched a regional discussion on transmission adequacy standards last September to help determine how much transmission BPA will need in the future. In response to public comments, BPA now proposes that the geographic scope be the footprint of the Northwest Power Pool, a voluntary organization formed in 1942 and comprised of major generating utilities serving the Northwestern U.S., British Columbia and Alberta. The geographic area is roughly the same as that of the proposed Grid West.

Silverstein pointed out that the effort would be limited to transmission standards. Coordinating regional planning and compliance monitoring are roles more appropriate for Grid West or an alternate organization, he suggested "Until such an organization is formed, we assume transmission providers can voluntarily comply with a new set of standards," Silverstein said.

Silverstein said BPA agrees with commenters who called for coordinating the transmission adequacy standard development with a similar effort on resource adequacy, such as that now being pursued by the Northwest Power and Conservation Council.

APPA calls for electricity policy reform

"The Federal Energy Regulatory Commission should reform its electric transmission policies to protect consumers," the [American Public Power Association](#) said in December, as it released [study](#) reviewing its members' experiences under national energy policy since 1992 "Public power systems are experiencing across-the-board problems with RTO costs, governance, and market mechanisms, and the problems impair their ability to make long term arrangements [to] provide reliable and affordable electric service to their consumers," APPA said.

"It is not too late to reform existing RTOs or to support RTO alternatives that better meet regional needs," said Jan Schori, chair of the APPA board of directors.

"BPA agrees with many of the APPA recommendations. In fact, the Grid West proposal addresses a number of them," was the reaction from BPA's Allen Burns. "We're trying to improve grid operation and planning for the Northwest and will only move forward if we're convinced the benefits will outweigh the costs. The APPA's study identifies pitfalls to avoid and productive ideas to explore."